

Step Three Findings for Economic Analysis: Fiscal Impacts

Metrorail Station Area Plan

July 18, 2011
Town of Herndon, Virginia

An aerial, high-angle photograph of a city, likely London, showing a river (the River Thames) flowing through the center. A bridge is visible crossing the river. The surrounding urban landscape is dense with buildings and green spaces. The image has a slightly faded, yellowish tint.

Scope of Economic Study

**Is the scale of development
economically appropriate as proposed
by the town?**

Project Update

- Nov. - Jan. 28, 2011 Public comment period on Area Plans 1&2
- January 21, 2011 Joint Work Session - Densities discussed
- March 11, 2011 Town Council - Land use mix discussed
- April, 2011 Financial Analysis began
- May 2, 2011 **Step One Findings:** *Economic Analysis / Financial Feasibility Baseline*
- May 23, 2011 Public Meeting: *Framework Diagram/ Transportation Considerations*
- June 13, 2011 **Step Two Findings:** *Economic Analysis/Financial Feasibility Iteration #1*

- **July 18, 2011** **Step Three Findings: Economic Analysis/Fiscal Impact Baseline**

- August 22, 2011 **Step Four Findings:** *Economic Analysis/Fiscal Impact Iteration and Selection of Area Plan for concluding study*
- Early October 2011 Presentation of Selected Area Plan
- Late October 2011 Planning Commission special public hearing and possible recommendation to the Town Council
- November/December 2011 Town Council public hearings and possible adoption



Recap of Economic Analysis

► Step 1: Baseline Financial Analysis

1. Tested an initial version of Area Plan 3
2. Of 13 properties, 9 financially feasible to redevelop
3. Presented May 2, 2011

► Step 2: Financial Analysis Iteration #1

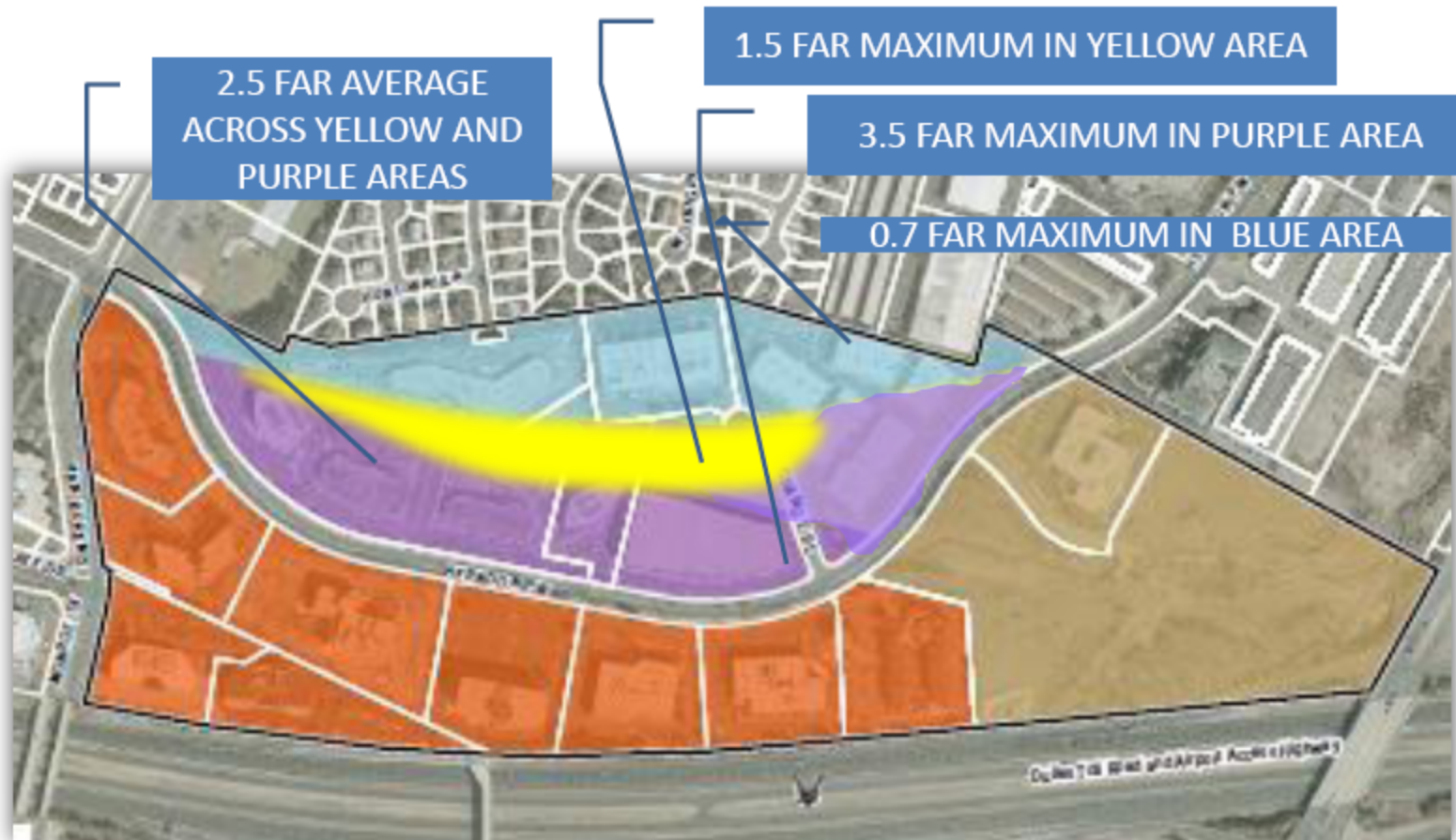
1. Tested an adjusted version of Area Plan 3 – Area Plan 3b
2. Of 14 properties, 10 financially feasible to redevelop
3. Presented June 13, 2011

► Step 3: Baseline Fiscal Analysis

1. Tested Area Plan 3b (same as Step 2 Financial Analysis Iteration #1)
2. Includes all 14 properties from Step 2
3. Tonight's presentation



Inputs Provided by Town: Concepts to Study, based on June 13, 2011 Planning Commission Special Work Session Discussion



Fiscal impacts modeled for same densities as Financial Iteration #1



Inputs Provided by Town:

Principal Assumptions

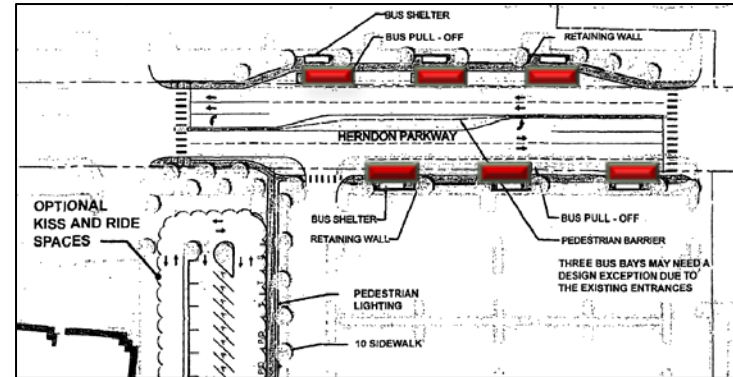
- ▶ Land use mix (as selected by Town Council 3/22/11)
- ▶ Two forecast years: 2025 and 2035
- ▶ Amount of development (retain some existing)
- ▶ Trip reduction for Transit Oriented Development (maximum 25% per Town and Fairfax County)
- ▶ Densities (as selected in joint work session 1/21/11)
- ▶ Street improvements
- ▶ Streetscape (to include off-street bike lane)
- ▶ Development timing and scale
- ▶ Water and sewer demand
- ▶ For Step Three, BBP LLC asked to determine if public expenditures exceed public revenues under Area Plan 3b



Inputs Provided by Town: Principal Assumptions

Passenger Drop Off at Metro Rail Station

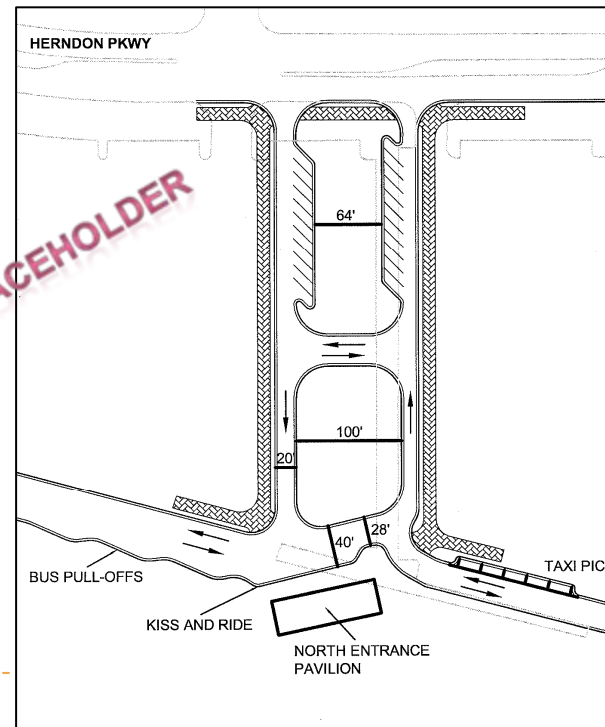
By 2025 improvement cost
(possibly public)



For study
purposes only

2035 improvement cost
(possibly private)

PLACEHOLDER



Inputs Provided by Town: Fairfax County and Town of Herndon Fees

Revenue formulas:

- ▶ Real Estate Taxes
 - ▶ Dulles Rail Phase 2 Tax
 - ▶ Storm water Service District
 - ▶ Commercial Transportation Tax District
 - ▶ Car Tax
 - ▶ Local Sales and Use Tax
 - ▶ Consumer Utility Tax
 - ▶ Transient Occupancy Tax
 - ▶ Meals Tax
 - ▶ Cigarette Tax
 - ▶ Bank Franchise Tax
 - ▶ Cable TV Franchise Tax
 - ▶ Vehicle Rental Taxes
 - ▶ Communication Sales and Use Tax
 - ▶ BPOL Taxes
 - ▶ Motor Vehicle License (vehicle decal)
 - ▶ Planning fees
 - ▶ Development fees
 - ▶ Building Inspection Fees and Permits
 - ▶ Franchise Leases
 - ▶ Recycling Collection Fee
 - ▶ Recreation and Admissions Fees
 - ▶ Water and Sewer Usage Charges
 - ▶ And more
-



Inputs Provided by Town:

Land Use Projections for Study Area

- ▶ Study area: 110 acres
- ▶ Ultimate Land Use Mix Desired by the Town Council 3/22/11*:
 - ▶ Retail – 3%
 - ▶ Office – 50%
 - ▶ Residential – 41%
 - ▶ Hotel – 6%

Comparison	Step One: Baseline Financial (5/2/2011)	Step Two: Financial Iteration #1 (6/13/2011)	Step Three: Baseline Fiscal (7/18/2011)
Redeveloped floor area in 2025 (square feet)	4.6 m	4.5 m	4.5 m
Additional redeveloped floor area in 2035 (square feet)	7.0 m	7.7 m	7.7 m
Additional redeveloped floor area after 2035 (square feet)	2.0 m	1.9 m	1.9 m
Dwellings in 2025	920	891	891
Additional Dwellings in 2035	2,600	2,846	2,846

▶ *Land use mix not based on market analysis; could redevelop over time with other uses

Types of Decisions by Town during Economic Analysis

- ▶ Specific factors that can be changed between one run of the fiscal calculation and a second run of the fiscal calculation
 1. Size of study area
 2. Amount, timing and location of existing development to be demolished and redeveloped
 3. Mix of development (land uses, including mix of owner and renter occupied residential
 4. Distribution of traffic (east or west)
 5. Density (floor area ratio) and where it is located
 6. Future level of government services, including fees and infrastructure costs



Findings about Fiscal Impacts

Area Plan 3B

July 18, 2011

An aerial, high-angle photograph of a city grid. The streets are light-colored, and the building footprints are darker. A large, green, rectangular park area is visible in the center-left of the image. The overall tone is slightly desaturated, with a yellowish-green tint.

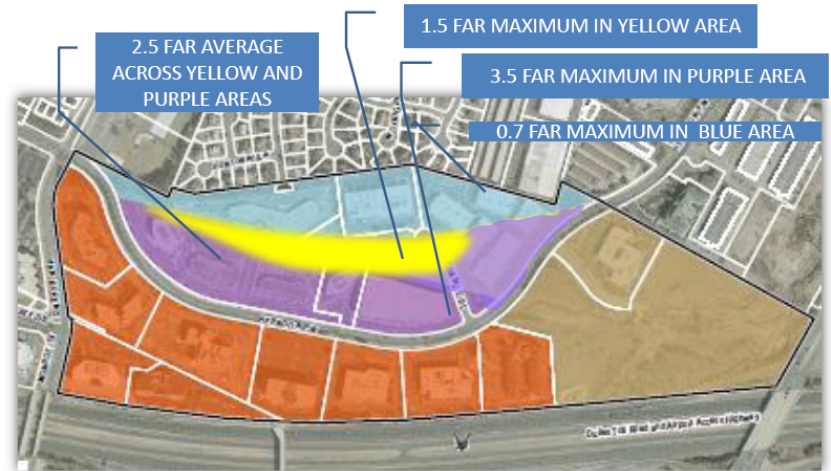
Scope of Baseline Fiscal Analysis

Does the redevelopment program create fiscal balance such that public expenditures do not exceed public revenues?

Projected Development

Growth is likely to be uneven . . .

- ▶ 5 properties likely to redevelop by 2025
- ▶ Additional 10 likely to redevelop by 2035
- ▶ More redevelopment closer to station by 2025, with more office
- ▶ More redevelopment occurs further from station by 2035, with more residential



Proportion of ultimate land uses by tier				
	By 2025	2025-2035	new development after 2035	ultimate (2010 to beyond 2035) land use mix desired by TC, 3/22/11
retail	3%	3%	3%	3%
office	65%	47%	27%	50%
resid	24%	44%	69%	41%
hotel	8%	6%	2%	6%



Fiscal Analysis Key Assumptions

Area Plan 3b Compared to Comprehensive Plan Build Out

- ▶ Comprehensive Plan represents existing development plus infill development of the Fairbrook Property with a net 920,000 SF of office and hotel uses



Fiscal Analysis Key Assumptions

Property Valuation

- ▶ Financial feasibility analysis estimated *acquisition value of property* based on reconciliation of three approaches to valuation:
 - ▶ *Income valuation* – based on assumptions about rent, vacancies and expenses
 - ▶ *Average valuation* – value estimated using average value PSF from 20 area comparables
 - ▶ *Midpoint valuation* – value estimated using midpoint value PSF between average and high from 20 area comparables
 - ▶ *Reconciled valuation* – consideration of above three methods, and where applicable, property's last sale price

Property X - Built 1986	
	VALUE
SQUARE FEET (OFFICE)	75,280
SQUARE FEET (LAND)	190,184
FAR	0.7
OPERATING INCOME	
RENT	\$29.37
VACANCY	25.30%
SUBTOTAL OPERATING INCOME	\$1,658,230
OPERATING EXPENSE	
EXPENSES	\$8.70
SUBTOTAL OPERATING EXPENSE	\$654,936
NET OPERATING INCOME (NOI)	\$1,003,294
CAPITALIZATION RATE	7.80%
INCOME VALUATION	\$12,862,746
AVERAGE VALUATION*	\$9,033,600
HIGH VALUATION*	\$19,723,360
MIDPOINT VALUATION	\$14,378,480
Last sold 2006	\$5,588,950
RECONCILED VALUATION	\$9,033,600
PROPOSED FAR	4.5
BUILDABLE SQUARE FEET	855,828
COST PER FAR FOOT	\$15.03

*REIS Commercial Office Market Report for Northern VA, Q1 2011

Fiscal Analysis Key Assumptions

- ▶ Fiscal analysis estimates *assessment value of property*
 - ▶ Office, retail and hotel assessments are derived from the *replacement value* of the property improvements *plus land*, which equals total development costs minus demolition costs
 - ▶ Residential assessments are calculated using the *replacement value* as the basis, plus an additional 20 percent to more accurately approximate *market value*
 - ▶ For existing development under Comprehensive Plan scenario, actual assessed values used



Fiscal Analysis Key Assumptions

Calculation of Revenues and Expenditures

- ▶ Revenues estimated based on prevailing tax rates and fees
- ▶ Expenditures estimated based on methods contained in A Practitioners Guide to Fiscal Impact (Burchell and Listokin, Rutgers University), widely recognized reference source in realm of fiscal analysis
- ▶ Using Burchell and Listokin methods, cost of services (expenditures) are estimated using a range of percentages of property taxes paid by households and commercial property owners within a given area
- ▶ Methods assume residential land uses require higher levels of government services than commercial uses (continuous presence in jurisdiction, and impacts to schools)
- ▶ Residential and commercial expenditures calculated separately

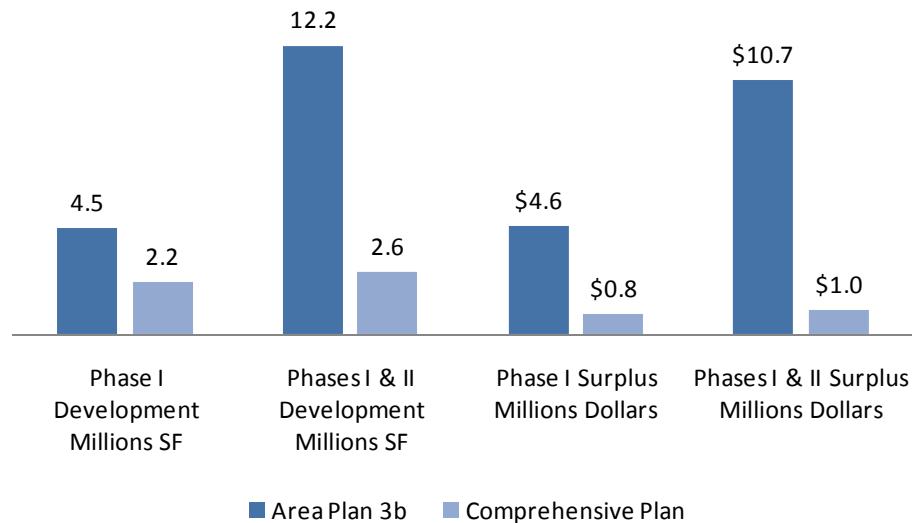


Fiscal Analysis Key Findings

Annually Recurring Fiscal Impacts to Town

- ▶ Fiscal balance is achieved under Area Plan 3b, with surplus revenues
- ▶ Under Area Plan 3b, public expenditures are covered by public revenues, resulting in a surplus of over \$4.5 million in Phase I, and \$10.7 million cumulatively in Phases I and II
- ▶ Under the Comprehensive Plan scenario, public expenditures are covered by public revenues resulting in a surplus of over \$800,000 in Phase I, and \$990,000 cumulatively in Phases I and II

Development and Surplus Revenues Compared



Fiscal Analysis Key Findings

Annually Recurring Fiscal Impacts to Town

	Area Plan 3b		Comprehensive Plan	
	Phase I	Phases I & II	Phase I	Phases I & II
Total Revenues	\$6.6 M	\$16 M	\$1.7 M	\$2 M
Total Theoretical Costs	\$2 M	\$5.3 M	\$0.9 M	\$1 M
Surplus/(Deficit)	\$4.6 M	\$10.7 M	\$0.8 M	\$1 M



Fiscal Analysis Key Findings

Non-Recurring Fiscal Impacts to Town

- ▶ Development Fees – based on development costs, building footprint and gross floor area per Town
 - ▶ \$2 million for Phase I
 - ▶ \$3.8 million for Phase II
 - ▶ \$5.8 million cumulatively in Phases I and II
- ▶ Proffers – BBP LLC has assumed proffers will equal residual equity calculated for Area Plan 3b under Financial Iteration #1
 - ▶ \$37 million for Phase I
 - ▶ \$49 million for Phase II
 - ▶ \$86 million cumulatively in Phases I and II



Fiscal Analysis Key Findings

Non-Recurring Fiscal Impacts to Town

- ▶ Area Plan 3b results in \$79.7 million in infrastructure costs cumulatively in Phases I and II
 - ▶ Potential proffers under Area Plan 3b estimated at \$86 million by 2035 (based on BBP LLC Financial Analysis), fully covering infrastructure costs
 - ▶ Alternatively, surplus tax revenues could cover 87% of infrastructure costs through the issuance of bonds
- ▶ Comprehensive Plan build out results in \$5.1 million in infrastructure costs cumulatively in Phases I and II
 - ▶ Potential proffers not modeled, but surplus tax revenues could support the issuance of bonds to fully cover the debt service on infrastructure costs



Fiscal Analysis Key Findings

Note on Schools Impact

- ▶ Fiscal impacts also modeled for Fairfax County
- ▶ BBP LLC estimated potential future school square feet needed, based on 50 SF per pupil and pupil generation rates from FCPS
 - ▶ Elementary: 10,465 SF
 - ▶ Middle: 2,760 SF
 - ▶ High: 5,721 SF
- ▶ An estimated \$3.5 million in proffers to the school system could be generated at current proffer rate



Decisions Needed

Area Plan 3B

July 18, 2011

Types of Decision by Town During Economic Analysis

Questions

- ▶ Does the Planning Commission find that the fiscal impact of Area Plan 3b is satisfactory?
- ▶ Is the Planning Commission willing to use Area Plan 3b as a framework for a final plan to be prepared by the consulting team?
- ▶ Does the Planning Commission direct the staff to consider a different scenario for further analysis?
- ▶ What variables does the Planning Commission want to use for the second fiscal impact scenario and analysis?



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Please provide all comments to Town staff no later than 8 am on Thursday, July 21, at

metro.plan@herndon-va.gov

So that the study can proceed to its next step: Fiscal Impact Iteration #1.

